

Research



27th edition

Knight Frank – FICCI – NAREDCO

Real Estate Sentiment Index

Q4 2020 (OCTOBER – DECEMBER 2020)

The Real Estate Sentiment Index is developed jointly by Knight Frank India, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the National Real Estate Development Council (NAREDCO). The objective is to capture the perceptions and expectations of industry players in order to gauge the sentiment of the real estate market.

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FOREWORD



Shishir Baijal

Chairman and Managing Director
Knight Frank India

2020 was a unique year. From grappling with an unprecedented challenge (the global COVID-19 pandemic) that impacted human as well as economic health in the first half of the year to witnessing a strong resurgence in economic activity and businesses in the second half, the year was packed with shocks and surprises. A lookback at 2020 in its entirety helps to clearly identify the distinct phases of economic transition: Q1 2020 was business as usual until the pandemic hit towards the tail end of the quarter, while Q2 2020 was a period of near stoppage in business activity on account of the stringent lockdowns. From Q3 2020, the economy started clawing its way back by riding on the back of pent-up demand and resumption of economic activities, and Q4 2020 was the period of healthy resurgence in economy. By the close of 2020, most macroeconomic indicators had recorded a steady growth for 4-5 consecutive months. This peak-trough-peak movement of economic activity within a year has been both heart-wrenching and encouraging to witness. Parallely, during this period, human health was subjected to the fear of the unknown coronavirus and unfortunately, many lives were lost to it. The much-awaited news of potential COVID vaccines that came in towards the end of the year, therefore, brought in cheer across the globe. With both human and economic health recovering from the woes of the pandemic, the year 2021 has begun on a positive note.

The 2020 story of the real estate sector was no different. Jolted by the pandemic in Q2 2020, office market activity restarted in the third quarter. In Q4 2020, office leasing activity was propelled by the vaccine reports and resulted in a record high performance. The residential real estate market performance of 2020 was a welcome surprise. This resilient segment started its recovery in Q3 2020 and managed to climb back to pre-COVID levels of sales by Q4 2020. Residential sales received a boost from numerous factors such as low home loan interest rates and strong government incentives in states like Maharashtra. This journey of lows and highs of the real estate sector is reflected in our quarterly Real Estate Sentiment Index. The Current and Future Sentiment scores hit their all-time lows in the first-half of this year and bounced back in the second-half, in line with the changed market realities. The Current Sentiment score has finally made its way into the positive zone in Q4 2020, while the Future Sentiment score is soaring towards a new high of optimism. As we begin our journey into 2021 with a positive outlook, it is important to closely watch the performance of economic indicators in coming months to check the sustainability of growth seen in the last two quarters of 2020. Equally crucial is the development of vaccine and its widespread availability for the masses. These two factors will largely determine the performance of real estate sector in the coming months.

With this backdrop, I present to you the 27th edition of the Knight Frank-FICCI-NAREDCO Sentiment Index. I hope you find this Index valuable in understanding the current and future outlook of the real estate sector.

I thank all our survey participants for their valuable market insights.

Stay safe.

Partners' take on the sector



Dr. Niranjana Hiranandani

Founder & MD - Hiranandani Group,
National President - NAREDCO and ASSOCHAM

As reflected in the 27th Knight Frank - FICCI - NAREDCO Real Estate Sentiment Index Q4 2020 Survey, it was resurgence that was powering optimism in real estate. The survey mirrors recovery expectations of not just real estate, but the economy. The survey shows that in Q4 2020, current sentiment score at 54, is in the 'optimistic zone' for the first time in 2020. Future sentiment score is 65 (from 52 in Q3 2020), developer sentiment score is 67 (from 56 in Q3 2020) while Non-Developer sentiment score (which include banks, financial institutions, PE funds) is up to 63 (from 50 in Q3 2020).

Investments in real estate over the recent past reflect positive sentiments on part of investors, domestic as also global, on the resurgence in the Indian economic growth story. This is a clear indicator of the bullish growth story of Indian Real Estate and reflects on the growth prospects of 270 allied industries as also job creation. Recently, we have seen this investment being in the office spaces segment, which reflects the confidence of investors in the Indian GDP's positive growth potential. Stakeholder outlook for the office market has improved substantially in Q4 2020 as leasing activity gained momentum.

Residential market outlook has revived further in Q4 2020, across all parameters, reflecting the increased traction in this segment. The impact of renewed consumer demand for residential realty has resulted in high levels of registration data, these transactions have lifted market sentiment. This bull run will be sustainable, growing through 2021, in the backdrop of the anticipated positive Union Budget - scripting the real estate revolution in India.



Mr Raj Menda

Joint Chairman, FICCI Real Estate Committee and
Corporate Chairman, RMZ Corp

THE impact of COVID-19 on the global economy and the CRE industry in particular has made 2020 the most memorable year in recent history. Commercial real estate is amongst the few industries that have been able to navigate through the year and their reliance has been a cumulative outcome of the efforts.

With the economic recovery heavily dependent on the vaccine, the length of this downturn now is certain. After almost a year of working remotely during a global pandemic, work force is already thinking about their gradual returns to the workplace. Corporate offices have put in place the requisite sanitation, health checks protocols and social distancing to welcome back essentially, all tenants.

The signs of recovery are already showing. IT/ITeS continue to drive the office segment in India. As global economies have stabilized, we've also seen an increase in private market activity. Two large scale office transactions in South India in Q4 2020 are testament to that. With two successfully completed REITS (Real Estate Investment Trust), we are now seeing the third REIT proposed by Brookfield. The pandemic had accelerated the e-commerce growth to such an extent, which would have taken four to six years to achieve. The insurgent growth is going to impact logistics related infrastructure including warehousing. Positively. Within real estate, certain asset classes, like retail may have a longer recovery cycle, while other sector like data centres, cloud kitchens and co-working may see an uptick in demand in the immediate to medium term.

This report reflects the positive market sentiments across all asset classes with a strong recovery momentum. Overall current sentiment score stands at 54 Q4 2020 as compared to 40 on Q-o-Q basis. The future sentiment score has jumped up to 65 in Q4 2020 from 52 in Q3 2020 mirroring the recovery expectations prevalent in the market. I hope this FICCI-Knight Frank-NAREDCO sentiment index for Q4 2020 will be helpful in understanding the future patterns.



APPROACH & METHODOLOGY

The Real Estate Sentiment Index is based on a quarterly survey of key supply-side stakeholders which include developers and non-developers, i.e. financial institutions including banks, Non-Banking Financial Companies (NBFCs) and private equity (PE) funds. The survey comprises questions pertaining to the overall economic momentum, funding availability, project launches, sales volume, leasing volume, prices and rents. For each of these questions, respondents choose from the following options for which weightage has been assigned as follows: a) Increase/Increased (100 points), b) Somewhat Increase/Somewhat Increased (75 points), c) Same (50 points), d) Somewhat Decrease/Somewhat Decreased (25 points), and e) Decrease/Decreased (0 points). The Index is determined by calculating the weighted average score of the number of responses in each of these categories, across questions.

A score of 50 represents a neutral view or status quo; a score above 50 demonstrates a positive sentiment; and a score below 50 indicates a negative sentiment.

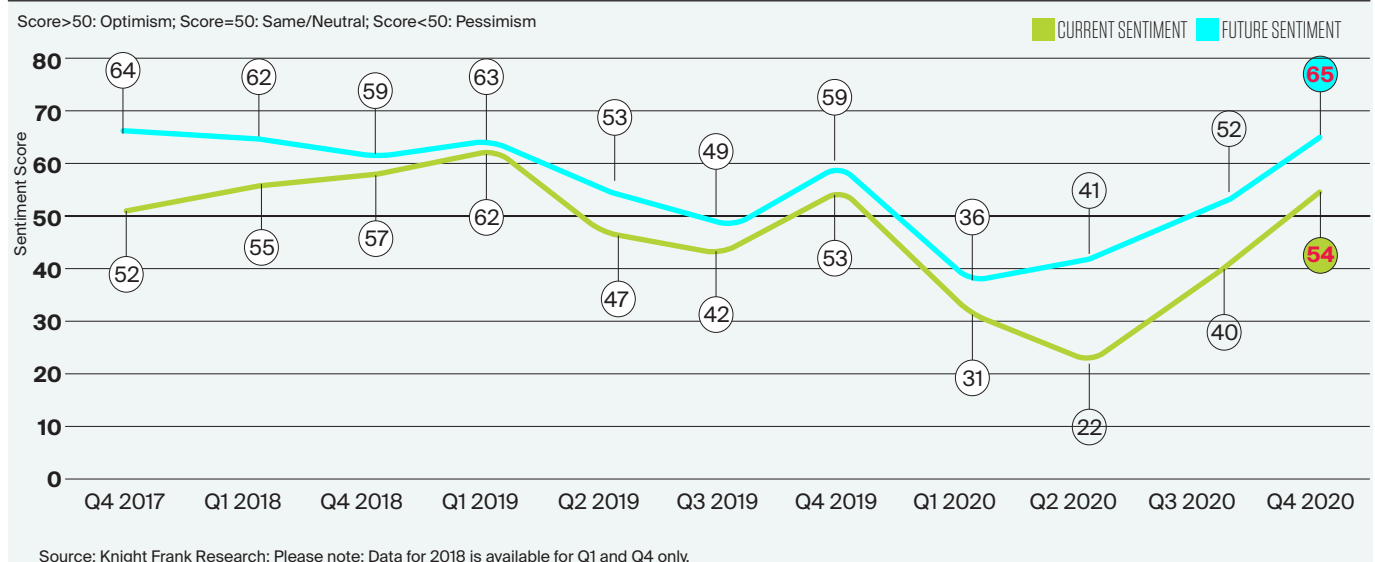
In order to present a holistic view of the real estate industry, the report is divided into two sections. Section A comprises two indices: The Current Sentiment Index that indicates the respondents' assessment of the present scenario compared to six months back, and the Future Sentiment Index that represents their expectations for the next six months. Section B focuses on the analysis of future sentiments of the stakeholders on different aspects such as the geography of stakeholders, stakeholder type (developer / non-developer), outlook specific to residential and office market, and outlook on the economy and funding scenario at large.

This survey edition is for the period October – December 2020 i.e. Q4 2020 and was conducted from 7th January 2021 to 14th January 2021.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENTS ENTER THE OPTIMISTIC ZONE, FUTURE SENTIMENTS IMPROVE FURTHER



A.1. CURRENT SENTIMENT SCORE

- The Current Sentiment score takes into account stakeholders' current outlook vis-a-vis six months back. The Current Sentiment score jumped considerably to 54 in Q4 2020 from 40 in Q3 2020, entering the optimistic zone for the first time in 2020.
- The score had turned negative in Q1 2020 after the COVID-19 outbreak and had remained in the pessimistic zone during Q2 2020, as the impact of the stringent lockdowns became apparent on businesses. It revived in Q3 2020 on the back of improving economic health and pent-up demand.
- The October-December 2020 quarter continued to see an improvement in the business momentum of Q3 2020. Office space leasing grew, as global players began acting on their pending and anticipated lease plans encouraged by the news of multiple potential COVID vaccines. Traction in residential segment continued in Q4 2020 on the back of festive discounts, pent-up demand and low home loan interest rates.

A.2. FUTURE SENTIMENT SCORE

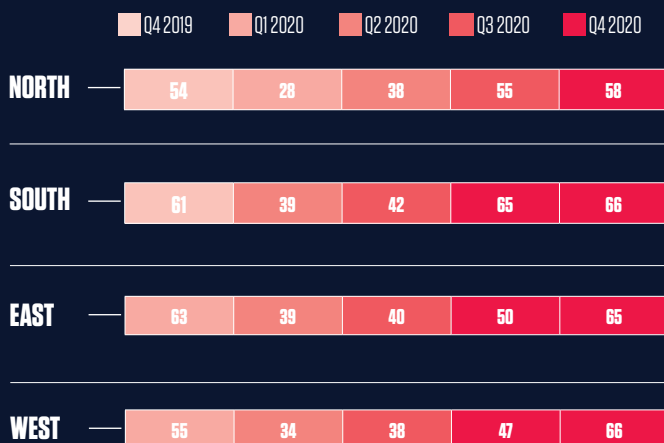
- The Future Sentiment Score takes into account stakeholder outlook of the real estate sector for the coming six months. The Future Sentiment score has climbed up to 65 in Q4 2020 from 52 in Q3 2020 mirroring the strong recovery expectations prevalent in the market.
- Stirring demand and festivities of Q4 2020 gave a strong fillip not just to the real estate sector but also to the economy at large. The improvement in high-frequency indicators recorded since September 2020 continued in December 2020 as well. Goods and Services Tax (GST) collections in December 2020 are at a record high whereas the Purchasing Managers' Index (PMI) for manufacturing recorded a fifth straight month of expansion.
- This economic growth environment raised market expectations of recovery in the coming six months and is reflected in the climbing Future Sentiment score.

SECTION B: FUTURE SENTIMENTS

B.1 ZONAL FUTURE SENTIMENT SCORE

FUTURE SENTIMENTS TURN BULLISH ACROSS REGIONS

SCORE > 50: OPTIMISM | SCORE = 50: SAME/NEUTRAL | SCORE < 50: PESSIMISM



Source: Knight Frank Research

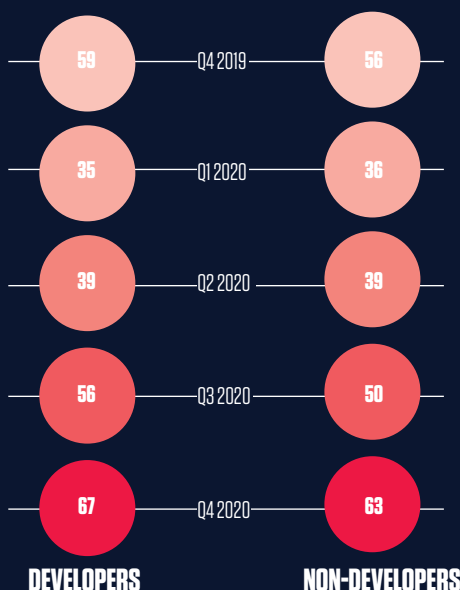
FINDINGS

- Buoyed by the positive market activity, future sentiments (for the next six months) of stakeholders are showing a significant surge across regions.
- West zone has seen the highest jump in the Future Sentiment score, climbing to 66 in Q4 2020 from 47 in Q3 2020. East zone stakeholder outlook also saw a substantial leap in future sentiments, jumping to 65 in Q4 2020 from 50 in Q3 2020. The Future Sentiment score for the North region went up to 58 in Q4 2020 from 55 in Q3 2020, while that of the already bullish South region improved marginally to 66 in Q4 2020 from 65 in Q3 2020.
- In Q4 2020, the Future Sentiment index for all regions is higher than Q4 2019 (pre-COVID level). This reflects the strong optimism prevailing in the sector as we enter 2021.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPER OUTLOOK JUMPS UP, NON-DEVELOPER SENTIMENTS ENTER THE OPTIMISTIC ZONE

SCORE > 50: OPTIMISM | SCORE = 50: SAME/NEUTRAL | SCORE < 50: PESSIMISM



Source: Knight Frank Research
Note: Non-developers include banks, NBFCs and private equity funds

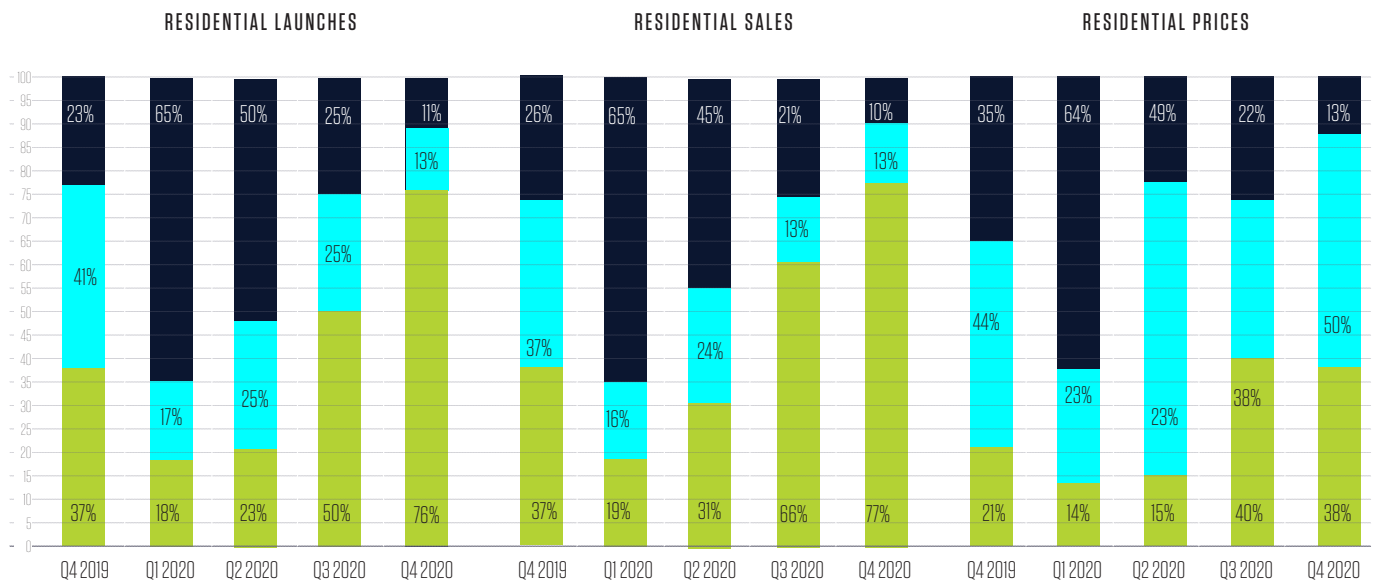
FINDINGS

- The outlook of supply side stakeholders has moved into the optimistic zone in Q4 2020 for both developers and non-developers (non-developers include banks, financial institutions and PE funds).
- Developer sentiments picked up on the back of resolving supply-side challenges and growing demand. The Q4 2020 performance of residential market across top eight cities in India was encouraging, as sales velocity returned to pre-COVID levels. Office transactions also grew in the last quarter of 2020 with occupiers beginning to execute their pending and future lease plans. This jump in demand has strengthened the developer outlook of real estate market for the coming six months.
- Fueled by the increase in residential sales and the pick-up in office transactions, real estate lending of banks and financial institutions also received a fillip. Accordingly, the future outlook of non-developers i.e. the financial stakeholders of real estate sector, improved in Q4 2020. Their Future Sentiment score jumped to 63 in Q4 2020 from 50 in Q3 2020, moving into the optimistic zone for the first time since Q4 2019.

B.3 RESIDENTIAL SECTOR OUTLOOK

RESIDENTIAL MARKET OUTLOOK UPLIFTED BY PENT-UP DEMAND

INCREASE SAME DECREASE



Source: Knight Frank Research

FINDINGS

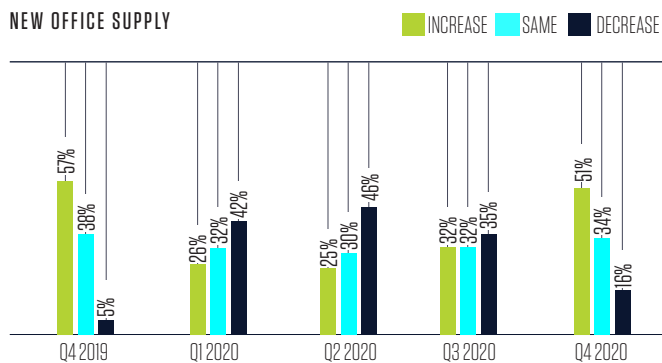
- The residential segment outlook was supported by pent-up demand, festive demand, multi-decadal low home loan interest rates, attractive residential prices and state government incentives such as reduction of stamp duty in Maharashtra. Residential sales reached pre-COVID levels (2019 quarterly average) by Q4 2020.
- In Q4 2020, a substantial 76% of the survey respondents were of the opinion that residential launches will increase in the next six months. 13% respondents felt that new project launches would remain the same in the coming six months, while 11% felt that they would decrease.
- On the demand front, the share of respondents who expected an increase in sales activity over the next six months jumped to 77% in Q4 2020 from 66% in Q3 2020. At the same time, the share of survey respondents with the opinion that sales would decrease in the next six months came down to 10% in Q4 2020 from 21% in Q3 2020.
- With regards to residential prices, 88% of the Q4 2020 survey respondents believed that prices will either increase or remain the same over the next six months, while only 13% were of the opinion that prices would decline in the coming six months.



B.4 OFFICE MARKET OUTLOOK

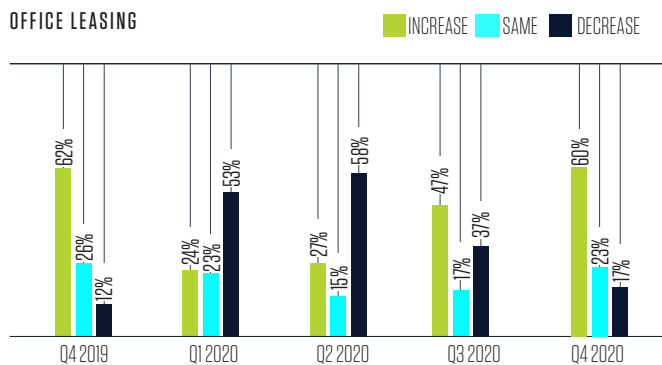
OFFICE MARKET OUTLOOK PROPELLED BY GROWING LEASING ACTIVITY

NEW OFFICE SUPPLY



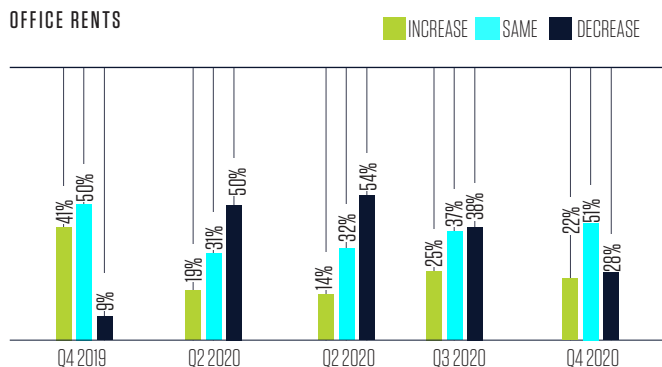
Source: Knight Frank Research

OFFICE LEASING



Source: Knight Frank Research

OFFICE RENTS



Source: Knight Frank Research

FINDINGS

- The COVID-19 pandemic had jolted the office market business in Q2 2020. The stakeholder outlook for this segment improved in Q3 2020 with gradual re-opening of offices and restoration of business activity, across India. With news of multiple potential vaccines doing the rounds, office space transactions gathered momentum towards the end of 2020. Global companies began locking in their anticipated office space requirements in preparation of full-occupancy in near future, thus giving a boost to office market traction.
- In Q4 2020, 51% of the survey respondents – up from 32% in Q3 2020 – were of the opinion that new supply in the office market will improve in the coming six months.
- On the demand front, 60% of the Q4 2020 survey respondents believed that office leasing activity will increase over the next six months. This is a significant jump from Q3 2020, when 47% of the survey respondents expressed the same opinion.
- With regards to office rents, the share of survey respondents expecting the office market rents to remain at current levels for the next months, went up to 51% in Q4 2020 from 37% in Q3 2020. Of the remaining 49% respondents in Q4 2020, 22% were of the opinion that rents will increase in the coming six months, while 28% believed that rents will be under pressure for next six months.

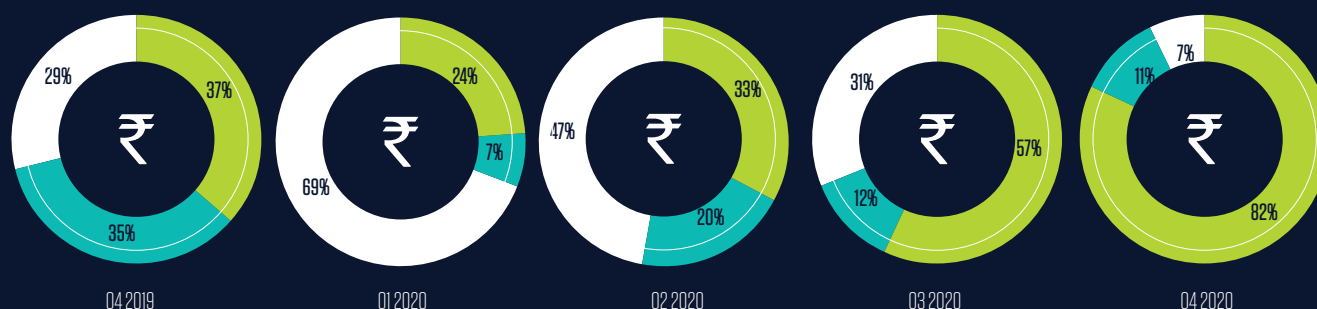


B.5. ECONOMIC SCENARIO AND AVAILABILITY OF FUNDING

STRONG IMPROVEMENT IN ECONOMIC OUTLOOK, CREDIT AVAILABILITY CONCERNS RECEDE

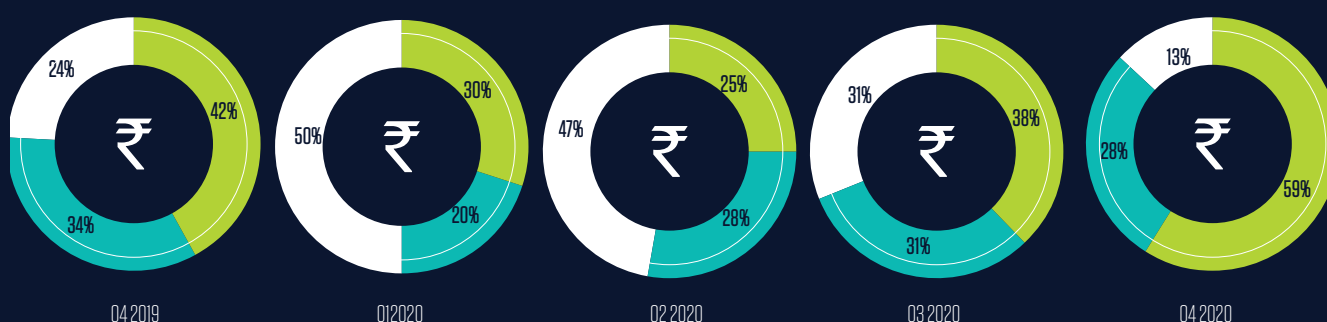
OVERALL ECONOMIC MOMENTUM

■ INCREASE ■ SAME ■ DECREASE



AVAILABILITY OF FUNDING

■ INCREASE ■ SAME ■ DECREASE



Source: Knight Frank Research

FINDINGS

- On the macroeconomic front, high frequency indicators stayed their course of improvement that was set in motion in September 2020. November-December 2020 numbers across key indicators continued to reflect growth in activity.
- For instance, Goods and Services Tax (GST) collections hit a record monthly high of INR 1.15 trillion. Total vehicle sales grew by 11% Year-on-Year in December 2020.
- Similarly, Manufacturing Purchasing Managers' Index (PMI) recorded expansion for the fifth straight month in December 2020. The Index of Industrial Production (IIP) also saw good growth since June 2020, driven primarily by the increase in Manufacturing sector activity.
- Mirroring the growth in economic indicators, a sizeable 82% of the Q4 2020 survey respondents – up from 57% in Q3 2020 – believe that the economy would grow further in the coming six months. At the same time, the share of survey respondents with the opinion that economic health will worsen in the next six months, went down considerably to 7% in Q4 2020 from 31% in Q3 2020.
- With regard to availability of funding, 87% of the Q4 2020 survey respondents were of the opinion that the funding scenario will either improve or continue to remain the same over the next six months.

CONCLUDING REMARKS

Q4 2020 performance of both residential and office market real estate was highly encouraging. This lifted the mood of the market and increased stakeholder expectations of a stronger recovery in the coming six months. As a result, the Q4 2020 Current Sentiment score moved into the positive score range for the first time in 2020, while the Q4 2020 Future Sentiment score continued its climb in the optimistic zone. Overall sentiments of the real estate sector have recovered strongly from the COVID shock. Having said that, the sustenance of economic growth in the coming months and mass access to the COVID vaccine will be key determinants of the growth trajectory of the real estate sector in 2021.



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